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ON THE

COMMERCIAL DEPRESSION :

ITS CAUSES AND ITS LESSONS.

BY

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PREFACE.

THE following Lecture was delivered, from Notes, on the 14th of January, and a desire having been expressed, by several persons, that it should be published, the writer has reprinted the report which appeared in the *Mercury* the following day, as being the best reproduction available.

It is in parts considerably condensed, but it does not seem worth while re-writing these portions, as pamphlets of this kind possess only a passing interest.

ON THE COMMERCIAL DEPRESSION; ITS CAUSES AND ITS LESSONS.

By SAMUEL SMITH.

I INTEND to consider the causes of the present commercial depression under two heads—first, the economical, and secondly, the moral.

The first question that presents itself is whether the depression is really so great as people say—is it a matter of first-rate magnitude, such as requires a special diagnosis, or an ephemeral influence that will soon pass away? The general opinion of employers of labour is that the present crisis is the most protracted, the most acute, and the most painful, that has occurred in this country since the repeal of the Corn Laws. We have had since then several sharp commercial paroxysms, which were all pretty severe at the time, but the general impression of those best able to judge is that we have had no such long, wearing out, wearying crisis as the one we have been passing through for the last three or four years, at least within the experience of the present generation. Prior to 1825, the country passed through a longer period of stagnation and severe suffering, as the result of the long-continued war waged with Napoleon, the huge national debt, and the return to cash payments. There is little doubt that the suffering was greater at that time, but so far as capitalists are concerned the present is worse than any experienced in our lifetime. With regard to the manual labour class, the case is rather different. I think that their sufferings were quite as great during the crisis of 1866–7 as at present. Many circumstances have

occurred to place operatives in a better position than during former commercial reverses. They have had much higher wages; they have saved money; and they have had powerful trades unions, which have fought against reductions, and kept up the high rate of wages for a long period after the profits of trade had died out. It is only within the past twelve months that the commercial crisis has begun to tell severely upon the operative class. It has been telling severely upon the employing class, in some trades for four years, but in all trades, with little exception, for three years. We shall not be very far wrong in saying that the great bulk of the commercial capital employed in the manufacturing and distributing trades has yielded scarcely any interest at all for three years, and during the last year there have been severe losses. These are the facts with which we have to deal.

Reviewing briefly the commercial history of the country since the repeal of the Corn Laws, we may say that from the introduction of free trade in 1845 the commerce of this country was marked by great prosperity, with little interruption, until 1873. In examining the figures, one is amazed with the progress made in that period. The amount of income chargeable to income-tax doubled in that period, say from about £250,000,000 to £500,000,000. The national revenue increased from £47,000,000 in 1840 to £81,000,000 last year, notwithstanding the repeal of taxes to the extent of £26,000,000, showing apparently a paying power on the part of the country nearly treble what it was forty years ago. The completion of our railway system, which took place mostly in that period, involved an expenditure of nearly £700,000,000.

What were the causes of that great stream of national prosperity?

The first of all was the introduction of free trade, with

cheap food—giving to our manufacturing population the material of cheap subsistence, and consequently of cheap production.

Then we had a great extension of the means of credit, which in its earlier stages was attended with great national advantages. We had the introduction of joint-stock companies with limited liability; and though this means of credit was afterwards much abused, yet there is no doubt that, during this period, the introduction of these companies greatly facilitated the employment of capital, gathering it together from multitudes of small sources, and turning it into productive channels.

During these years an immense system of foreign loans sprang up. This, in its earlier stages, was attended by great apparent advantages. Many hundreds of millions of British capital were employed in making railways, canals, mines, and other productive works abroad. A large portion of these loans was employed in purchasing British goods of various kinds, such as railway iron and machinery, and produced an immense demand for manufactures at home. We were lending money with one hand, and getting it back with the other. That led to the impression that a large and profitable business was being done, though later developments have shown that a great deal of this was hollow at bottom.

We had, as I have already said, created the great railway system of this country, providing a valuable investment for nearly £700,000,000 of capital. There was also created, during that time, most of the great railway system of Europe and America, a large part of which was done by British capital, and which, in its earlier stages, was very profitable to all concerned.

An auxiliary cause of prosperity was the discovery of the gold mines of Australia and California, adding immensely

to the stock of precious metals in the world. The effect of that was to cause a tendency towards higher money values all over the world, which had an enlivening effect upon trade.

High-water mark in the prosperity of this country was reached about the year 1873; when various causes came into play which entirely blighted it, and brought about the present aggravated crisis.

Prior to 1873 silver and gold might be regarded as equally the money of the world. Silver was employed over the larger area, and the balance between the two metals was maintained by the French bi-metallic system. Gold and silver held a ratio of 1 to $15\frac{1}{2}$ everywhere—except in Japan, which was hermetically sealed—because, from every part of the world, silver could be sent to the French mint, coined, and exchanged for gold at that rate. Since 1873 the relationship of the metals has wholly changed. The German Government, imitating England, and making a great mistake, resolved to demonetise silver, which had been its sole legal tender and standard of value. The result has been that Germany has been purchasing immense quantities of gold, and selling off its silver. France got alarmed, and resolved to close its mint, and adopt a watching policy. Silver being shut out from its chief market, its ratio to gold fell; and from being twin sisters, the metals ceased to have any fixed relationship at all. The effect of this was to raise the purchasing power of gold, and to lower the money value of commodities. A rapid fall in prices has since been going on. At the present time the average scale of values is almost as low as it was at the repeal of the Corn Laws, in 1845. All operations based upon money values have been constantly losing; and the trade of England being largely with silver-using countries—such as India, China, most of the South American states, Austria,

Russia, and other countries—has been embarrassed to a degree which is scarcely credible, except to persons engaged in those trades. Investments, made in good faith, are being practically repudiated, and the bridge which conducted British capital to other countries has been broken, because there is no longer any fixed ratio between the two metals. It is no longer possible to lend a million to China, India, Austria, or other silver-using countries, with the knowledge that in thirty or forty years it will be repaid at the same value, unless we make an arrangement that it shall be repaid in gold, which very few of those countries will now accept. This difficulty will continue to operate until this country changes its monetary policy, confesses that it has been wrong in the part it has played, and offers to join France and the United States in re-establishing the bi-metallic system.

About the same period we were further afflicted by a series of foreign bankruptcies. Bankruptcy became the fashion amongst impecunious states, and the losses made by the investing public of this country were something enormous; estimated recently by Lord Derby as, perhaps, three hundred millions sterling. Not only was a considerable portion of the property of our richer class thus swept away, but the effect on the industry of Great Britain was this—it stopped the spending power of those bankrupt countries. Their spending power depended on their borrowing power, and having lost the latter, they were unable to send orders to this country for railway iron, ironclads, Armstrong guns, and other luxuries!

Then came the American crisis, which commenced in 1873, and lasted about five years. America is just beginning to recover from this crisis. America was formerly a good customer of this country. Until the civil war she had a moderate tariff on British goods. Though the feeling of the country was protectionist, yet she had very small requirements for revenue, and had no pretence, therefore, on which to levy heavy tariffs

on foreign goods. But the effect of the civil war was to create an immense debt, and the necessity for a large revenue, which the Americans chose to raise, mainly, by a heavy customs tariff. Our country has been the greatest sufferer by this policy. We did not at first feel its effect. America possessed a small manufacturing system, not nearly sufficient to supply the wants of her population, and it took several years of high duties before that system was greatly enlarged. But the effect of the protective duties was to give, for a time, immense profits to her own manufacturers, and to cause capital to flow into manufacturing industries, so that America has become, practically, self-sustaining. Consequently, our trade with America, in iron, and cotton goods, and other important staples, has been almost entirely cut off, with no hope of recovery for a long time to come. Thus the cost of the American civil war has been, in a large part, paid by England. In connection with this, it may be observed that a large part of the cost of all wars, in all parts of the world, ultimately falls upon this country, and therefore this country should always be in favour of international peace.

The next cause of prostration of trade was, what we may call, the collapse of the joint-stock companies. I do not mean that all joint-stock companies turned out to be bad, but a large proportion of them did; and for several years the law courts in London have been occupied in winding up rotten and defunct companies, revealing for the most part a history of fraud and chicanery, from beginning to end, of the most disgraceful kind. There is no doubt that, though the joint-stock system was very conducive to the spread of enterprise in this country, and to the fructification of capital in its earlier stages, it became grossly abused. The success of the earlier joint-stock companies led to imitations without number, and the practice of cooking accounts, and declaring fraudulent dividends, spread like lightning, till

it has been really demoralising the commercial framework of this country.

Another cause which, of late years, has very much interfered with the former profits of mercantile capital is the extension of steam, and the telegraph. Though these agencies are of great value to society, yet the first effects have been most injurious to merchants. They have been to merchants very much like what the effect of substituting the power-loom for the hand-loom was to weavers, in so much as they greatly economise the use of capital, and do away with the need of many intermediaries.

Another influence very injurious to the trade of England has been the tendency to protection in foreign countries. There is no doubt that, more or less, the tendency of the world, of late years, has been backwards towards protection. The rest of the world has not followed our example. We thought that, after 1845, free trade would gradually come to be the rule all over the world; but, partly from commercial ignorance, partly from wars which brought the necessity for heavy customs tariffs, most of the new countries of the world—and we are sorry to have to include our colonies—have become more or less protectionist, and are going further in that direction. The question is whether there is any means of remedying this, and we hear a great deal about reciprocity. I suspect that this word is used by many persons with peculiar ideas as to its true meaning. I imagine that the meaning usually attached to it is protection in the guise of retaliation. But we must face the fact that we have not, in this country, any industry which we can protect, or which would be the better for protection. The only industry which it is possible to protect, in this country, is the agricultural interest, and, I think, we have all made up our minds that we do not intend to make food dearer, simply to benefit the landed aristocracy. For the greater part of our manufacturing industries we require to find foreign

outlets; therefore, protection could not possibly benefit us in regard to them, because we must be the cheapest producers in the world in order to find these outlets. It is very humiliating to this country to see the large amount of foreign manufactured goods which now come in. The only remedy is to produce our goods cheaper. Our working men must work longer hours, or take lower wages, and give more honest work; and our employers must show greater skill. We must, somehow or other, beat the foreign goods out, for it is only on that condition that we can live. But, I think, there is just this degree of reasonableness in the cry for reciprocity—that it is an unjust thing that our own colonies, not to speak of foreign countries, should do their best to shut our goods from their markets, for we open our ports to almost everything they produce, free of duty. The hardship is very great to our manufacturers, and if we do possess any lawful, or any effectual, means whereby we can compel, or persuade, our colonies, as well as other countries, to give us fairer treatment, it will be most legitimate to use them. The real difficulty is to know how to do it. We have repealed nearly all the duties in our fiscal system, unconditionally. If we had made conditions, years ago, it might perhaps have been different. We might have said to our colonies, “As you are part of the empire, we insist on absolute free trade.” But we have lost that power, and it appears to me so difficult to find a remedy now as to be almost impossible.

One striking feature which has accompanied the decline of British prosperity, during the last few years, has been the enormous increase of the value of our imports over our exports; proving, to all intelligent minds, that this country has been buying goods beyond its power to pay for them. It has been very evident, to all thoughtful minds, that we had a crisis to encounter. This country has become wasteful, and extravagant, to a dangerous degree.

The unreasonable action of trades unions is another cause which has been very injurious to the productive power of this country. There is no doubt that the first effect of trades unionism was very beneficial to the working class. It bound them together by ties of brotherhood, made them look after one another, prevented them being mere cyphers, protected them against rapacity and arbitrary treatment on the part of their employers, and tended to establish a better rate of wages, or, at all events, to render their income less precarious. But, feeling their power, the working men very much abused it. During the years of prosperity they took full advantage of it by raising wages immensely, and by shortening the hours of labour very much indeed, till, at last, England was paying a rate of wages much greater than that of any other country, whilst the hours of labour were very much shorter. It is quite possible to exact these terms from employers when trade is good, but when the tide turned and trade was bad, the trades unionists had not the sense to see it, and they have been fighting a losing battle against the inevitable course of events. It seems to me that the working men of England have shown lamentable folly during the last few years. Their leaders have shown themselves singularly incompetent to judge of the great laws which govern commerce. No amount of experience seems to have taught them any more sense. Every year the quarrels became more numerous, and the strikes more insane; and the consequence has been that some of our large trades have been almost ruined. The loss of this country through these industrial civil wars, during the last few years, must have been perfectly fabulous—as much, I believe, as would have been spent in a great foreign war; and one can only hope that the misery which has been brought about by these strikes will ultimately lead to some new, and better, method being adopted for settling such questions.

Then, again, there is no doubt this country has suffered

very considerably from the dark and threatening aspect of foreign politics, during the last few years ; but I do not look upon that, as some do, as the main cause of the present commercial depression. This country is suffering more from the consequences of past wars, than from the state of foreign affairs during the last few years. The civil war in America, though fourteen years old, is telling more upon England now than the Russo-Turkish war. It is when war debts have to be paid, when heavy taxation is imposed, and an excuse given for levying hostile tariffs, that England suffers.

The position we have reached, at the present time, is somewhat as follows :—We have a declining trade ; exports have fallen off in value by about £60,000,000 from the highest point, though not in quantity to any great extent ;—we have a rapidly growing population ;—a third of that population have to be supplied with food from abroad ;—we have to import the raw material of most of our manufactures ;—and the only means we have of paying for this necessary food, and raw material, is our manufactured goods—such portion of them as we can induce the foreigner to take. The ability of this country to maintain its increased population depends, entirely, upon pushing its foreign trade. If the foreign trade were to come to a standstill the surplus population must starve, become paupers, or emigrate. The effect of improved land laws upon the home production of food would, I think, be more social and moral than economical. I do not think we can grow any large amount of additional food in this country except at too great a cost ; we can buy it cheaper abroad.

Lastly, I wish to refer to the moral, and social, causes of the commercial depression through which we are passing. During the period of great prosperity, between 1870 and 1873,

a reckless spirit spread over the country. The whole community became tainted with a spirit of violent speculation, one of the results of which was great extravagance. The quiet, sober, habits which used to prevail in the middle classes gave place to a flashy imitation of the aristocracy. At the same time the "company mania" was at its height, and the country became deluged with unhealthy artificial company speculation. People seemed to think that they no longer needed to work hard for their money, but that by a little juggling—by the meeting of a few men round a board, once a week, to drink sherry—they could make all the profits they required. Large dividends were paid for a short time. Within my own knowledge companies which paid 20 and 30 per cent. were not earning more than 10 per cent., if correctly calculated. If this had gone on for a few years longer the country would have become corrupted, and lying and cheating would have become the rule through all classes. Fortunately, it could not go on, because the world is ruled by a moral Governor. These rotten companies came down one after another, and the failures culminated in the huge collapse of the City of Glasgow Bank.

The baneful effect of this speculative spirit is seen mainly in the middle classes, but the deterioration which has taken place in the working classes has been, if possible, even more deplorable. The rise of wages, coming upon a class of men ill prepared for it, was, to many of them, a positive evil of the highest degree. It led to disgraceful intemperance. The amount spent in alcoholic drinks increased by £30,000,000 sterling in a few years, and this increase has been nearly maintained since then, notwithstanding the falling off in trade. It is an appalling fact that, at the present time, this country is spending nearly £150,000,000 annually in drink, at least two-thirds of which expenditure is simply utter waste of money. As a consequence of this great

intemperance, the British mechanic compares most unfavourably with the French and American artisan.

Another of the causes which has [deteriorated] the working population is found in the principles adopted by many of the trades unions, principles subversive of the great laws the Creator has laid down to stimulate human industry. Arbitrary rules are made which put all men—the industrious and the idle, the clever and the stupid—upon the [same] level. Conscientious work in some trades is impossible, and the cost of production is greatly raised. This immensely handicaps England in competition with other countries. The unions do not see that in this they are killing the goose that lays the golden eggs. These evils will, however, cure themselves in time, but extreme poverty, and extreme suffering, seem to be the only means of doing so.

As to the remedies for the present state of things, I believe, in the first place, that emigration is an absolute necessity. Under no possible system of improved land laws can we provide for an annual increase of 400,000 people in the British Isles. We must have a large and copious emigration, or else pauperism, and starvation, on an enormous scale. The class most affected in this crisis is not the working men, but the lower middle class, that which supplies our clerks. A large portion of this class must emigrate, or live lives of poverty, and dependence upon others. But are they fitted for emigration? They know nothing of any handicraft, and when sent to a country like America are of no use whatever.

I believe, therefore, that one of the lessons which this country must learn is to educate the young in a more practical manner. We must educate them with more reference to the great law that man must earn his bread by the sweat of his brow. It is impossible that a whole

nation can live by brain-work, or by the little niceties and refinements of life. The great bulk of mankind must, ultimately, earn their living by handiwork of some kind or another, by tilling the soil, or engaging in some useful trade. The rage runs through society to train up our children to what are called genteel professions, which mean, in many cases, genteel starvation. To all public schools there ought to be a workshop attached, where every boy should spend a certain time daily, and learn a handicraft. Looking at the tyrannical restrictions of many of the trades unions—at the small number of apprentices allowed to be employed—and the great number of labourers who have not had an opportunity of learning a trade owing to these arbitrary restrictions, it is worthy of consideration whether it would not be a wise thing to have, in all elementary schools, a workshop, in which all the boys should be taught to use their hands. Such a step would break down many of the senseless and arbitrary, restrictions that greatly hamper the productive power of this country.

Finally, the world is administered upon moral laws. National sins bring national punishments. When nations obey the great laws of industry, rectitude, and uprightness which God has laid down for the government of His intelligent creatures, they will be prosperous. When they depart from the paths of moral rectitude, by extravagance, idleness, or any kind of unprincipled conduct, there follows an avenging Nemesis in the shape of poverty and destitution. This country has been passing through a time in which it has been exhibiting grave national delinquencies, in the forefront of which I would place the extreme intemperance of the people. God is pointing His finger to us, and requiring us to examine our ways. The nation in its corporate capacity, acting through the Government which it chooses, has

winked at the evil of excessive drinking, has given the publican most undue facility for corrupting the people, and has permitted intemperance to grow almost unchecked. If we had a Government that would deal with this question with the fear of God before its eyes, with an earnest desire to encourage virtue and suppress vice, which would legislate with that end, it might, in a moderate space of time, immensely reduce the intemperance of this country. I have no doubt that the seeds of many national reforms are now being sown which will afterwards produce an abundant harvest. At least, that is our hope and prayer.



